

PIEDMONT UNIFIED SCHOOL DISTRICT

M E M O R A N D U M

TO: Board of Education

FROM: Dr. Donald Evans, Interim Superintendent
Ruth Alahydoian, Chief Financial Officer
Cheryl Kaiser, Manager, Fiscal Services

PRESENTERS: Ruth Alahydoian, Chief Financial Officer

DATE: December 14, 2022

RE: **REVIEW THE 2022-23 FIRST INTERIM FINANCIAL REPORT OF THE DISTRICT; DETERMINE A *POSITIVE* CERTIFICATION SIGNIFYING THAT THE DISTRICT WILL MEET ITS FINANCIAL OBLIGATIONS FOR THE CURRENT YEAR AND SUBSEQUENT TWO FISCAL YEARS; AND AUTHORIZE APPROPRIATE BUDGET TRANSFERS**

PURPOSE:

The First Interim Report for Fiscal Year 2022-23 provides an update of actual expenditures and revenues through October 31, 2022, and a projection of the budget adjustments necessary to complete the fiscal year. The First Interim also includes a multiyear projection (MYP) to serve as an early warning system to begin planning for the District’s spending over the following two years.

Based on the projections for expenditures through the end of the fiscal year and assumptions for future years described below (see MYP Projections), including ongoing budget adjustments necessary in 2023-24, the District will meet the 3% reserve in the current and two subsequent fiscal years. **As a result, we recommend that the Board certify the First Interim as “Positive”.**

BACKGROUND:

Governing Boards are required to certify the financial condition of each school district at two intervals during the school year, though the Board routinely reviews the budget more frequently. Per the requirements of AB 1200, the District declares its ability to meet its financial obligations through one of three self-certifications:

- *Positive* Certification means that the District believes it can meet its financial obligations for the remainder of the current fiscal year and subsequent two fiscal years;

- *Qualified* Certification indicates a district may not be able to meet its financial obligations in the current and two subsequent fiscal years;
- *Negative* Certification is used when a district will not be able to meet its financial obligations for the remainder of the current year nor for the subsequent two fiscal years

The First Interim Report provides projections for budgets for 2022-23 through 2024-25 based on conditions at this time. In compliance with Education Code EC 42131(a)(1) requirements, Assembly Bill (AB) 1200, and AB 2756, the Piedmont USD is recommending approval of/confirming a **positive** certification for its 2022-23 First Interim Report. After approval by the Board, the report will be submitted to the Alameda County Office of Education (ACOE) by December 15, 2022.

DETAILS:

The following information explains the differences between the adopted budget and the first interim and accompanies the “Budget Comparison General Fund” table (attached).

Revenues: Since the budget was adopted on June 22, 2022, revenues have been adjusted to reflect the actual State-adopted budget and other revenue adjustments. These changes were shared with the Board on August 10, September 14, and October 12. The net decrease in revenues since budget adoption is **\$112,498**, with the major adjustments as follows:

- **Local Control Funding Formula (LCFF):**
 - **\$895 K** - The final state budget increased the year-over-year increase (or COLA) for LCFF per pupil amounts to 13.26%. The District had assumed 9.85%. The final state budget also approved an alternate calculation methodology for ADA. The District had assumed this formula, but had held the revenues unspent in the fund balance.
- **Federal Funding:** For federal (and some state) funds, when funds are not completely spent in the year the grant is awarded, the revenues are backed out at year end and recorded as "Deferred Revenue." The funds are added back in the following year so that they can be spent. The additional federal funds are due to unspent grants from the prior year being recorded as new revenue for this year.
 - **\$127 K** - The Expanded Learning Opportunities Grant received in 2021-22 was not completely spent last year. The grant is used for special education placements for students who need services beyond what the district can provide on site.
 - **\$21 K** - Alternative Dispute Resolution grant for SPED, also deferred revenue from last year.
- **State Funding:** The large decrease in State funding is due to the reduction in the one-time grant that was budgeted at \$3,385,590 but was reduced to \$1,503,374 in the final State budget. This decrease is offset by new state grants for specific programs as follows:
 - - **\$1.882 M** (decrease) in Arts, Music and Instructional Materials (AMIM) Discretionary Block Grant from budgeted amount to actual appropriation.
 - **\$167 K** - Learning Recovery Grant - one-time funds used for SPED needs stemming from distance learning year.

- o **\$112 K** - Pre-Kindergarten (TK) one-time planning grant - deferred revenue (unspent) from prior year
- o **\$68 K** Expanded Learning Opportunity Program - ongoing grant that has significant requirements attached to provide additional school time for students.
- o **\$40 K** Lottery
- **Local Funding:**
 - o **\$229 K** - parent club and other contributions through the IC store and direct donations over the budgeted estimate. Some of these contributions are for specific uses, such as AP exams, etc.
 - o **\$76 K** - adjustment to Parcel Tax revenues.

Expenditures: Since the budget was adopted on June 22, 2022, expenditures have been adjusted to reflect the actual people in positions. The board approved salary increases and one-time payments have also been incorporated, as described below. The net increase in expenditures since budget adoption is **\$4,598,010**. The major differences in expenditures since budget adoption are:

- **Certificated Salaries:**
 - o 7.5% salary schedule increase for all certificated staff
 - o \$1,500 per FTE one-time payment for all certificated staff.
 - o **\$1.4 M net increase** in certificated salaries
- **Classified Salaries:**
 - o \$2,750 per FTE one-time bonus for CSEA from Measure H funds in July
 - o 7.5% salary schedule increase approved by the Board on November 28
 - o *\$1,500 per FTE one-time payment is not yet in the budget, but the funds are set-aside in the fund balance*
 - o 7.5% salary schedule increase for classified administrators
 - o \$1,500 per FTE one-time payment of \$1,500 for classified administrators
 - o **\$1.1 M net increase**, not including the most recently approved one-time payment.
- **Benefits:**
 - o **\$441 K** increase due to salary-driven benefits associated with the salary increases and one-time payments
 - o **\$135 K** Increases in District contribution to benefits, per Board approved agreements.
 - o Clean-up of the estimates for health benefits in the original budget. The original budget over-estimated the health benefit for vacant positions. The over-estimate was identified when reviewing the budget after closing the books for the prior year and allowed the District to make the substantial settlement offer.
 - o - **\$57 K** net decrease to benefits.
- **Books & Supplies:**
 - o **\$407 K** increase to budgets linked to specific contributions from parents and unspent prior year revenues carried over to this year.

- **Capital Outlay** - Two capital projects were incorporated into the budget after the original budget was established and are expected to be reimbursed by State School Facilities Program funds when the state allocates the funds due to Piedmont. The two projects were:
 - **\$187 K** for Witter Field-related improvements to the accessible parking lot adjacent to the field.
 - **\$101 K** to complete the VRF (air conditioning) system installations at Wildwood.
- **Services and Other Operating Expenditures:**
 - **\$1.2 M** SPED contracts that are tied to newly identified student needs, including placements outside the District in non-public schools.
 - **\$100 K** increase in utility cost estimates based on analysis of costs after closing the books for the prior year.

Fund Balance: The Ending Fund Balance, which is the bottom line of what is left in the District’s General Fund at the end of the year, is projected to be **\$2,682,713**. The unrestricted balance, excluding the set-aside for the CSEA one-time payment, is **2.97%** of expenditures. **Including the balance of Fund 17, which is the Noda fund, the district is able to meet the 3% reserve requirement.** Included in the balance is:

- **\$1,614,758** - 2.97% Reserve for Economic Uncertainty.
- **\$806,829** – Restricted funds not expected to be spent in 2022-23.
- **\$217,126** – set-aside for one-time \$1,500 per FTE payment to CSEA members
- **\$44,000** – revolving cash

V. MULTIYEAR PROJECTIONS (MYP)

The First Interim Report includes multi year projections (MYP) for two additional years – 2023-24 and 2024-25. The MYP is built on the current year budget, with adjustments for any known changes, including eliminating one-time expenditures in the current year from the subsequent year budget. The following assumptions were used:

Assumption	2022-23	2023-24	2024-25
Enrollment	2,346	2,336	2,302
ADA used for LCFF calculations	2,425.69	2,354.99	2,277.30
Cost of Living Increase (COLA) for LCFF per pupil funding	13.26%	5.38%	4.02%
COLA for increase in other State revenues and various costs	6.56%	5.38%	4.02%
Natural progression (Step & Column) in Employee Salaries	APT: 1.15% CSEA: 1.00%	APT: 1.15% CSEA: 1.00%	APT: 1.15% CSEA: 1.00%
STRS Rate	19.10%	19.10%	19.10%

PERS Rate	25.37%	25.20%	24.60%
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The State’s funding formula – LCFF – is based on the average daily attendance (ADA) of students. As enrollment declines, funding decreases. Because the entire state is experiencing declining enrollment, the formula for calculating ADA has been adjusted to soften the impact to school district budgets. For Piedmont, LCFF funding is decreasing, but not as dramatically as it would if it was based on true ADA. Other assumptions in the MYP are:

Revenues:

- LCFF revenues are calculated using enrollment projections as of Census Day 2022 and ACOE's recommended COLA adjustments (in table above).
- No one-time or new grants or programs, only ongoing State and local programs.
- Piedmont Education Foundation has asked us to use \$3 million as their contribution to the District for 2023-24.
- The Measure G parcel tax increases by 2% (will require board action).

Expenditures:

- Salary increases approved in 22-23 are on-going and have been incorporated into the MYP. One-time bonuses are not included.
- Certificated salaries were reduced by one (1.0) FTE associated with the current year grants that will be fully expended this year.
- Classified salaries that are associated with one-time or COVID related funds are reduced. It is the equivalent of 4 FTE.

Ending Balance:

- Measure H funds that have not yet been negotiated are shown in the Components of the Ending Fund Balance.

Based on the assumptions listed above, the projections for 2023-24 and 2024-25 identify a gap of \$1,100,000 that must be addressed. The District will need to identify specific action to be taken over the next two months to increase revenues and/or reduce expenditures to close this gap.

MULTIYEAR PROJECTIONS - 2022-23 First Interim			
	2022-23	2023-24	2024-25
Beginning Balance	\$ 4,888,296	\$ 2,682,712	\$ 2,375,026
Total Revenues	\$ 52,131,686	\$ 50,910,340	\$ 51,469,998
Total Expenditures	54,337,270	52,318,025	52,332,957
Add'l Adjustments		(1,100,000)	(1,150,000)
Net Surplus (Deficit)	(2,205,584)	(307,686)	287,041
Ending Fund Balance	\$ 2,682,712	\$ 2,375,026	\$ 2,662,067
Components of Ending Balance:			
Restricted Funds	\$ 850,829	\$ 356,039	\$ 356,039
Held for CSEA One-time (\$1500/FTE)	\$ 217,126	-	-
Measure H - available for CSEA	-	320,872	641,744
Required Reserve	1,630,118	1,536,541	1,535,489
Add'l Unassigned	(15,361)	(55,551)	(88,331)

STATUS OF OTHER FUNDS

In addition to the General Fund, the District also maintains eight other funds to track restricted revenues and the associated expenses. Reports are provided for each of the funds in the Standardized Account Code Structures (SACS) format required by the State of California and in a one-page table. The table below summarizes the beginning balances, revenues, expenditures and ending fund balances for all funds.

Fund #	Fund Name	Beginning Balance	Revenues	Expenditures	Ending Fund Balance
01	General Fund	\$ 4,888,294	\$ 52,131,686	\$ 54,337,270	\$ 2,682,710
08	ASB Fund	440,874	34,941	34,941	440,874
11	Adult Education	73,002	566,917	653,629	(13,710)
13	Cafeteria	343,769	1,513,981	1,857,354	396
14	Deferred Maintenance	(127,650)	274,279	55,000	91,629
17	Special Reserve-Noda	108,185	500	-	108,685
35	State School Fac	3,722	-	3,500	222
40	Reserve-Cap Facilities	452,773	345,296	643,231	154,838
51	Bond Repayment	9,021,209	7,882,798	6,310,910	10,593,097
		\$ 15,204,178	\$ 62,750,398	\$ 63,895,835	\$ 14,058,741

RECOMMENDATION: APPROVE A POSITIVE CERTIFICATION OF THE 2022-23 FIRST INTERIM FINANCIAL REPORT AND AUTHORIZE REQUIRED BUDGET TRANSFERS

Upon review of the 2022-23 PUSD First Interim Report, approve a *Positive* certification of the District's ability to address and meet its financial obligations for the current year and subsequent two years and authorize all budget transfers as required.

NEXT STEPS: The SACS documents and board materials will be submitted to ACOE for review.

FISCAL IMPACT. The District will begin the process of identifying budget adjustments for 2023-24 and subsequent years through the budget development process that begins immediately. The current projection is for a \$1.1 million shortfall. The next update to this will be in January when funding for schools are proposed in the Governor's Budget Proposal for 2023-24.

ATTACHMENTS. Attached to this memo are the following items that make-up this Board item:

- First Interim Report in State Accounting Code (SACS) format (all funds and additional forms are included)
- Graph and Table of Revenues of the General Fund
- Graph and Table of Expenditures of the General Fund.
- Budget Comparison Table for the General Fund
- Multi Year Projections Table for the General Fund.
- Summary Table for each fund.